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Dear John

IMPLEMENTATION OF A REGIONAL BOUNDARY CHANGE

Macquarie Generation appreciates the opportunity to comment on NEMMCO's response dated 25 August 2006 to the AEMC's request for advice on implementation steps and issues that could arise from proposed changes to the Snowy Region boundary.

Any change to regional boundaries in the NEM will create transitional problems and implementation costs. The reason for pursuing a regional boundary restructure is to provide incentives for more efficient bidding and dispatch as well as improving locational signals for new investment. Implementation costs represent a small fraction of the overall gains from eliminating the distortions created by misaligned regional boundaries and intra-regional congestion.

The AEMC has approved a number of partial fixes to the problems in the Snowy region, namely the Snowy Hydro trial of constraint support pricing and contracting and the Southern Generators' proposal for the management of negative settlement residues. Both temporary Rule changes are set to expire in mid 2007.

Macquarie Generation remains of the view that the AEMC should introduce a permanent and enduring solution for the Snowy region. The current partial fixes do not adequately address the underlying problems that result in inefficient bidding and dispatch.

Demand projections

NEMMCO states that the Macquarie Generation proposal will require significant effort by TransGrid and Vencorp to determine new regional load forecasts for use in NEMMCO's Statement of Opportunity and projected assessments of system adequacy.

Macquarie Generation notes that TransGrid and Vencorp currently prepare sub-regional load forecasts as an input to their annual planning reports and the network planning process. Much of this information is compiled from bulk supply point load projections provided by distribution network service providers. It should be possible for the TNSPs to forecast load levels in the proposed South-west NSW and Northern Victorian regions using this sub-regional information.

Reserve margin calculations

NEMMCO states that a change of regional boundaries would require a change to the reserve margin calculation to meet the Reliability Panel's standard for each region. This process could take nine months or longer to complete.

NEMMCO currently sets a combined minimum reserve level for Victoria and South Australia. Macquarie Generation believes that NEMMCO could extend this methodology to include the south-west NSW region with the NSW region and the northern Victorian region with the Victorian and South Australian regions.

NEMMCO recently published minimum regional reserve levels for 2006-07 and 2007-08 based on modelling work by ROAM consulting. Macquarie Generation considers that these calculations and the unserved energy targets for the combined regions should not change significantly in a 2 year period. NEMMCO could consider individual regional reserve levels when it undertakes its next NEM-wide review in 2008.

Other matters arising from the Macquarie Generation proposal

NEMMCO raises a concern that a new Northern Victoria region could create a loopflow with the South Australian and Victorian regions. Macquarie Generation has discussed this matter with the AEMC and confirmed that its Rule change proposal intended to retain a linear relationship between regions, consistent with the model outlined in NEMMCO's Appendix B in which all energy flows through the Victorian region.

Macquarie Generation has no concern with NEMMCO's proposal to place Ballarat in the proposed Northern Victorian region given the lack of metering on the 66kV line between Ballarat and Horsham. Macquarie Generation proposed an approximate regional structure based on public information about intra-regional congestion and sub-regional load levels. Macquarie Generation welcomes any suggested improvements to its proposal.

Proposed commencement date

Macquarie Generation's Rule change proposal included a commencement date of 1 August 2007 for the proposed boundary change, consistent with the expiration of the Snowy Hydro derogation for the constraint support pricing trial. In order to facilitate a smooth introduction of any change to regional boundaries in and around the Snowy Region, Macquarie Generation would have no serious concern with a

proposed commencement date of 1 July 2008 and an extension of the present Chapter 8 derogations until that time.

A deferred commencement date would:

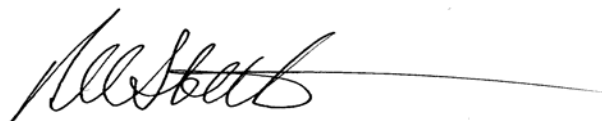
- decrease the number of existing hedge and retail contracts affected by the proposed realignment of regional boundaries;
- provide a greater period of notice to SRA participants to assess the impact of any boundary realignment;
- reduce implementation costs by providing NEMMCO with more time to plan and implement metering, operational and IT changes. It should also avoid any timing issues associated with the release of the annual national transmission statement and statement of opportunities;
- allow the TNSPs more time to provide information to NEMMCO to support any boundary change, including regional load forecasts and network stability limits; and
- allow new intra- and inter-regional loss factors to be introduced at the start of the financial year in line with current NEMMCO practice.

Summary

The AEMC is currently undertaking a modelling exercise to evaluate the overall costs and benefits of proposed changes to the Snowy Region boundary. Macquarie Generation believes that its proposal offers significant benefits in terms of improved bidding and dispatch incentives, firmer inter-regional settlement residues, more explicit representation of major generation sources in constraint equations and a more accurate account of transmission losses in inter-regional loss equations.

Macquarie Generation does not consider that any of the issues raised by NEMMCO in its response to the AEMC represent a major hurdle to the introduction of the proposed boundary realignment. Implementation and timing issues associated with boundary changes will always create one-off costs for the NEM. Moving the commencement date to 1 July 2008 should minimise these costs and allow a smooth transition to a new regional structure.

Yours faithfully



RUSSELL SKELTON
MANAGER MARKETING & TRADING

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